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cc Mr. Hoskyns
Mr. Ingham

MR. SCHOLAR

Prime Minister

NHS PAY

The Prime Minister ought to see the Chancellor's note of today's date on NHS pay as background to her meeting tomorrow morning on Civil Service pay. I have already drawn attention to the connection between the issues in a separate note I have done about the civil servants.

Mr. Fowler has succeeded in persuading both the Chancellor and his colleagues on the Ministerial Committee on pay that he should be allowed an increase in the NHS cash limit in order to provide for additions to the pay factor for nurses and midwives (an extra 2.4%), professions supplementary to medicine (2.4%), ambulancemen (1%), and doctors and dentists (2.1%). But the agreement of the Ministerial Committee was on the clear understanding that it was subject to the Prime Minister's own approval. There are a number of points which I think the Prime Minister will want to consider carefully:

(i) Although allowing Mr. Fowler a certain amount extra for nurses and ambulancemen is reasonable, particularly if as a quid pro quo he accepts that he must deliver the NHS ancillaries at no more than 4%, the logic of approaching the DDRB with an indication that the Government is prepared to go to 6% is very doubtful. It is suggested that the DDRB may make an "unacceptably high" recommendation if they think the pay factor is 4%, but a "broadly acceptable" one if they think it is 6%. It seems to me much more likely that the higher the pay factor they think that the Government has in mind, the higher their recommendation will be. Furthermore, Ministers have already decided to let the Review Bodies report without interference, and a decision to interfere with one must raise the question of what to do about the other two. Far better to let them all report, and then cope with the consequences, differently in each case if need be.

(ii) The total cost of the proposed additions to the pay factor is £117.6 million. The Prime Minister may feel that Mr. Fowler should agree that under no circumstances will this be exceeded

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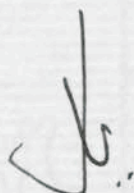
SECRET

- 2 -

(I understand that, at his meeting with the Chief Secretary this morning, not much progress was made in finding offsetting savings).

(iii) Paragraph 5 of the Chancellor's minute points in two directions on the timing of any announcement. It seems to me clear that, since the announcement on the NHS will contain elements greater than the 4% pay factor, we cannot let it be announced before we have made an offer to the civil servants, because to do otherwise would be providing the Civil Service unions with the argument that the Government can in fact offer more than 4% when it wants to. The present plan is to make the opening offer to the unions in the middle of this month, which would seem to point to an offer to the NHS groups at the end of this month.

I have commented separately on long-term arrangements for nurses pay.



John Vereker

1 February 1982

SECRET